

**REPORT OF THE AUDIT OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
January 1, 2015 Through April 15, 2015**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLINTON COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
January 1, 2015 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Clinton County Sheriff for the period January 1, 2015 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$288,033 for the districts for 2014 taxes, retaining commissions of \$11,643 to operate the Sheriff's office. The Sheriff distributed taxes of \$270,533 to the districts for 2014 taxes.

Report Comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

Deposits:

The Sheriff's deposits were covered by FDIC insurance.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Richard Armstrong, Clinton County Judge/Executive
Honorable Jim Guffey, Clinton County Sheriff
Members of the Clinton County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Clinton County Sheriff's Settlement - 2014 Taxes for the period January 1, 2015 through April 15, 2015 - regulatory basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky

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William M. Landrum III, Secretary

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period January 1, 2015 through April 15, 2015 of the Clinton County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2015 on our consideration of the Clinton County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Clinton County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Clinton County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

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William M. Landrum III, Secretary

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Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written over a horizontal line.

Adam H. Edelen

Auditor of Public Accounts

September 21, 2015

CLINTON COUNTY
JIM GUFFEY, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period January 1, 2015 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transfer From Outgoing Sheriff:				
Real Estate	\$ 30,214	\$ 65,813	\$ 187,706	\$ 56,544
Tangible Personal Property	1,693	4,351	8,793	4,512
Limestone, Sand and Gravel Reserves	201	440	1,255	378
Penalties	1,739	3,826	10,694	3,426
Gross Chargeable to Sheriff	<u>33,847</u>	<u>74,430</u>	<u>208,448</u>	<u>64,860</u>
<u>Credits</u>				
Exonerations	37	83	224	62
Discounts	5	11	32	10
Delinquents:				
Real Estate	8,501	18,550	52,907	15,937
Tangible Personal Property	<u>192</u>	<u>492</u>	<u>994</u>	<u>515</u>
Total Credits	<u>8,735</u>	<u>19,136</u>	<u>54,157</u>	<u>16,524</u>
Taxes Collected	25,112	55,294	154,291	48,336
Less: Commissions *	<u>1,067</u>	<u>2,350</u>	<u>6,172</u>	<u>2,054</u>
Taxes Due	24,045	52,944	148,119	46,282
Taxes Paid	23,971	52,780	147,656	46,126
Refunds (Current and Prior Year)	<u>74</u>	<u>164</u>	<u>463</u>	<u>156</u>
Due Districts				
as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

4.25% on \$ 128,742

4% on \$ 154,291

The accompanying notes are an integral part of this financial statement.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Clinton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Clinton County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLINTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2015
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 2015 through April 15, 2015.

Note 4. Interest Income

The Clinton County Sheriff earned \$23 as interest income on 2014 taxes. As of September 21, 2015, the Sheriff owed \$12 in interest to the school district and \$11 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Clinton County Sheriff collected \$15,728 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Richard Armstrong, Clinton County Judge/Executive
Honorable Jim Guffey, Clinton County Sheriff
Members of the Clinton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Clinton County Sheriff's Settlement - 2014 Taxes for the period January 1, 2015 through April 15, 2015 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated September 21, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Clinton County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Clinton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clinton County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clinton County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Sheriff's Response to Finding

The Clinton County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

September 21, 2015

COMMENT AND RECOMMENDATION

CLINTON COUNTY
JIM GUFFEY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2015 Through April 15, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

A lack of adequate segregation of duties existed over all accounting functions. The Sheriff's bookkeeper opens incoming mail, collects tax payments, prepares deposits, prepares daily tax collection journals, and prepares monthly tax reports.

A limited budget placed restrictions on the number of employees the Sheriff could hire. When faced with a limited number of staff, strong compensating controls could be in place to offset the lack of segregation of duties.

Lack of oversight could have resulted in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff could separate the duties involving the opening of mail, collecting and depositing of cash and preparation of the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas could occur and involve an employee that isn't currently performing any of those functions. Additionally, the Sheriff could provide this oversight and document it on the appropriate source documents.

Sheriff's Response: Was updated daily of the account funds but was unaware they required initialing. Will start initialing paperwork/reports on a daily basis to eliminate this for the next audit.

